

July 27, 2011

Investment Policy Subcommittee  
California Public Employees' Retirement System  
Lincoln Plaza, 400 P Street  
Sacramento, CA 95814

Dear Members of the Investment Policy Subcommittee:

In our capacity as Real Estate Consultant to the Board, Pension Consulting Alliance, Inc. (PCA) has reviewed the update on the Neutrality Trial Program (NTP) and the request to extend the NTP for one year, from March 31, 2012 to June 30, 2013, in order to gain more experience under the trial program. PCA also reviewed the request to expand the program to construction contracts. Based upon the concerns of CalPERS' investment managers, PCA agrees with staff that construction contracts not be included at this time.

In February 2010, the Investment Committee approved the Neutrality Trial Responsible Contractor Program (Neutrality Trial RCP) Policy and its corresponding NTP. The NTP was designed to gather data on the investment impact of requiring neutrality as to employee and union organizing efforts over a two-year timeframe. The NTP applies to existing investment managers in the core real estate program that voluntarily agree to be bound by it, as well as to their existing contractors who also agreed to be bound to it. The NTP also applies to new investment managers retained during the trial period. The risk of potential material adverse harm to a CalPERS investment is mitigated by the fact that an investment manager or REU Staff will be able to exempt a contractor from the neutrality requirement, through a documented process, if after competitive bidding, there is no contractor who will agree to neutrality.

Based on our review of the current NTP as well as previous versions of the RCP Policy and other supporting documentation, PCA concurs with the proposed trial period extension. PCA believes that it is too soon to measure the results of the NTP and that additional data collected over the coming year will be necessary to understand whether or not the neutrality requirement should be increased to a broader Real Estate Program if the NTP is deemed a success. PCA also concurs that CalPERS should not presently expand the NTP to construction contracts based on the concerns of CalPERS' investment managers.

Respectfully,



Allan Emkin  
Managing Director